

Message Text

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PAGE 01 BERN 03014 01 OF 03 221044Z
ACTION EUR-12

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R 220945Z JUN 78
FM AMEMBASSY BERN
TO SECSTATE WASHDC 6471
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL ZURICH POUCH

UNCLAS SECTION 1 OF 3 BERN 3014

USMTN ALSO FOR MISSION
USOECD ALSO FOR EMBASSY
PASS TREAS FRB
EO LL652: NA
TAGS: EFIN, SZ
SUBJ: SWISS FINANCIAL REVIEW: WEEK JUNE 12-16
1. SUMMARY: WEEK WAS DOMINATED BY ANNUAL BANK FOR
INTL SETTLEMENTS MEETING AND STATEMENTS BY ATTENDING
CENTRAL BANK GOVERNORS, INCLUDING FRB CHAIRMAN MILLER
WHO ADDRESSED SWISS-AMERICAN CHAMBER OF COMMERCE.
BANK OF ENGLAND GOVERNOR SPOKE TO FOREIGN BANKERS ASSN.
SWISS NATL BANK PRES SPOKE IN LIECHTENSTEIN.
DOLLAR EXCHANGE RATE WAS STABLE DESPITE FLUCTUATIONS.
GOLD PRICE ROSE; CREDIT SUISSE FORECAST UPWARD LONG
TERM PRICE TREND. SNB REDUCED CAPITAL MARKET LIQUIDITY.
PARLIAMENT PASSED NEW SNB LAW. UNION CARBIDE ANNOUNCED
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PAGE 02 BERN 03014 01 OF 03 221044Z

SALES OF TWO BRANCHES. ECONOMIC OUTLOOK IS MORE FAVOR-
ABLE. FOREIGN TRADE ROSE. UNEMPLOYMENT DECLINED
FURTHER. END SUMMARY.
2. FOREX GOLD: DOLLAR RATE AGAINST SF REMAINED
STEADY DESPITE FAIRLY WIDE MID-WEEK FLUCTUATIONS IN
NERVOUS MARKET. DEALERS ATTRIBUTED DOLLAR STRENGTH ON
EUROPEAN MARKETS TO HIGHER US BANK RATES, FRB CHAIRMAN'S

FORECAST IN ZURICH OF LOWER US INFLATION AND REDUCED US CURRENT ACCT DEFICIT AND SNB PRES LEUTWILER'S STATEMENT DOLLAR RECOVERY WILL CONTINUE. US TREAS SECY'S OECD STATEMENT THAT US WILL CONTINUE INTERVENE FOREX MARKET WAS ALSO VIEWED AS POSITIVE ELEMENT OFFSETTING REPORTS DECLINE IN RATE US ECONOMIC GROWTH. DEALERS SAID WHAT DOLLAR WEAKNESS THERE WAS STEMMED FROM DECLINE AGAINST YEN ON NON-EUROPEAN MARKETS FOLLOWING REPORTS OF IMPROVED JAPANESE ECONOMIC INDICATORS. SOME OBSERVERS SAID EUROPEAN FINANCE MINISTERS' MEETING ON POSSIBLE EXPANSION OF EUROPEAN SNAKE IN PREPARATION FOR EC SUMMIT WAS ADDITIONAL NEGATIVE FACTOR. GOLD PRICE ROSE STEADILY; THERE WERE LARGE FLUCTUATIONS, LOW VOLUME. PRICE ADVANCE CHIEFLY ATTRIBUTED TO INDUSTRIAL DEMAND. SWISS BANK CORP DOUBTED NEXT US GOLD AUCTION WOULD CAUSE SIGNIFICANT PRICE CHANGE BECAUSE OFFER AND DEMAND APPEAR WELL-BALANCES WITH NO DISCERNIBLE SPECULATIVE TREND. RATES FOLLOW:

6/12 (OPEN) 6/16 (CLOSE)

SPOT DOLLAR 1.8935 1.8950

FORWARD DISCOUNTS

(PCT PER ANNUM)

1 MONTH 7.34 7.15

2 MONTHS 6.87 7.09

3 MONTHS 6.77 6.94

6 MONTHS 6.80 6.86

UNCLASSIFIED

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PAGE 03 BERN 03014 01 OF 03 221044Z

12 MONTHS 6.35 6.46

SF/DM 90.85 90.34

GOLD 181.50 184.25

3. GOLD: CREDIT SUISSE BULLETIN NOTED EFFORTS STABILIZE FOREX RATES, BALANCE PAYMENTS, FIGHT INFLATION AND OFFICIAL GOLD SALES COULD ADVERSELY AFFECT GOLD PRICE. HOWEVER, MAY IMF AUCTION PRICE WAS ABOVE MARKET PRICE WITH RECORD DEMAND. INDIAN GOLD WAS SOLD AT SF 16,000 TO SF 17,000 PER KILOGRAM COMPARED TO SF 11,200 ON SWISS MARKET. US SALES WERE ALSO ABOVE MARKET PRICE. GENERAL GOLD PRICE STABILITY ATTRIBUTED TO DIMINISHED SOVIET OFFER IN SECOND QUARTER AND INCREASED INDUSTRIAL DEMAND. DEMAND IS UP FOR GOLD JEWELRY AND COINS, PARTICULARLY FROM MIDDLE EAST. SOUTH AFRICAN SALES ARE EXPECTED DECLINE OVER LONG TERM. PRICE COULD FALL BRIEFLY IN SHORT TERM BUT LONG TERM TREND IS UPWARD. COIN PRICES ARE STABLE, DESPITE DIP FOR US DOUBLE EAGLE AND BRITISH SOVEREIGN. KRUGER RAND DEMAND IS STRONG; 2.1 MILLION COINS SOLD IN FIRST 4 MONTHS 1978 WERE EQUAL TO 70 PCT TOTAL 1977 SALES.

4. SNB LAW: PARLIAMENT LOWER HOUSE PASSED NEW NATL

BANK LAW AS SUBMITTED. REJECTED SOCIALIST MOVE TO
AUTHORIZE ESTABLISHING MINIMUM RESERVE LEVELS ON
BANK ASSETS. ALSO REJECTED EFFORT AUTHORIZE GOVT
TAKE ADDITIONAL UNDEFINED MEASURES TO ENSURE STABLE
ECONOMIC AND MONETARY SITUATION.

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PAGE 01 BERN 03014 02 OF 03 221138Z
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UNCLAS SECTION 2 OF 3 BERN 3014

5. CAPITAL MONEY MARKETS:

A) STOCK PRICES ROSE SLIGHTLY AMID RUMORS SNB WOULD
LIFT BAN ON FOREIGN NON-RESIDENT PURCHASES OF SWISS
SECURITIES; SKA SHARE INDEX EDGED UPWARD TO 252.1.
SNB ASSURED BANKS OF ADEQUATE LIQUIDITY TO MEET END-
JUNE REQUIREMENTS. SNB FOREX HOLDINGS FELL SF 306
MILLION; NOTES IN CIRCULATION DECREASED SF 418 MILLION;
BUT GIRO ACCTS ROSE SF 126 MILLION. SHORT TERM
INTEREST RATES ROSE SLIGHTLY. THREE-MONTH EUROFRANC
RATE WAS 1-3/8 PCT AND ONE YEAR WAS 2 PCT. ULTIMO
MONEY WAS 5 PCT. HOWEVER, LONG-TERM RATES WERE
STEADY. AVERAGE YIELD CONFEDERATION BONDS SLIPPED
TO 3.42.
B) FED COMMISSION FOR LOAN ISSUE CONTROL APPROVED
TOTAL OF SF 2,008.5 MILLION LEVEL THAT BORROWERS MAY
RAISE ON SWISS CAPITAL MARKET IN THIRD QUARTER 1978.

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PAGE 02 BERN 03014 02 OF 03 221138Z

NET NEW MONEY TO BE RAISED WILL BE SF 1,044.5, DOWN SF 200 MILLION FROM THIRD QUARTER 1977. REFINANCING OF OUTSTANDING DEBT WILL BE SF 960 MILLION, UP SF 520 MILLION FROM THIRD QUARTER 1977. COMMISSION APPROVED ALL REQUESTS FOR LOAN AUTHORIZATIONS,; SAID MARKET CONDITIONS CAN ABSORB THIS DEMAND.

6. BIS MEETING: BANK FOR INTL SETTLEMENTS HELD ANNUAL MEETING. CHAIRMAN ZILJLSTRA TOLD PARTICIPANTS GREATER EXCHANGE RATE STABILITY IS ONE PREREQUISITE FOR BETTER ECONOMIC GROWTH RATE. STABILITY REQUIRES INTL COOPERATION AND COORDINATED POLICIES AMONG MOST CONCERNED COUNTRIES TO CREATE MARKET EXPECTATIONS OF MORE STABLE EXCHANGE RATES. RECENT COOPERATION BETWEEN US AND EUROPEAN COUNTRIES ON MONETARY AND EXCHANGE MARKET INTERVENTION POLICIES HAS BEEN ENCOURAGING. CONTINUING THESE EFFORTS IN COMING MONTHS CAN CONTRIBUTE TO RE-ESTABLISHING CONFIDENCE IN ECONOMIC PROSPECTS.

7. CENTRAL BANKERS:

A) PRESS REPORTED FRB CHAIRMAN'S ZURICH SPEECH TO SWISS-AMERICAN CH OF COMMERCE MADE GOOD IMPRESSION. EXPRESSED SATISFACTION WITH MILLER'S 8-POINT PROGRAM TO PROMOTE US ECONOMIC EXPANSION: GRADUAL ELIMINATION OF BUDGET DEFICITS BY 1982, REDUCTION OF BUDGET OUTLAYS FROM 22 TO 20 PCT OF GNP, INCREASED INVESTMENT FROM 9 TO 12 PCT OF GNP, INCREASED EXPORTS FROM 7 TO 10 PCT OF GNP, REDUCE TAXES ON PRIVATE AND CAPITAL INVESTMENTS, PROMOTE CONSTRUCTION, REDUCE RESTRICTIVE REGULATIONS AND ELIMINATE SOURCES OF INFLATION. NOTED THAT ALL POINTS OF THIS PROGRAM ARE NOT YET USG POLICY, BUT ADMINISTRATION OFFICIALS APPEAR RECEPTIVE TO THEM. HARDEST TASK IS REDUCING RULE OF INDEPENDENT COMMISSIONS. NOTED MILLER'S VIEW STRONG DOLLAR IS IN US INTEREST. PRESS REPORTED MILLER INSTILLED

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PAGE 03 BERN 03014 02 OF 03 221138Z

CONFIDENCE IN AUDIENCE BUT FRB MUST CONTEND WITH OTHER POWER CENTERS IN US AND IMPROVEMENTS WILL NOT COME QUICKLY.

B) BANK OF ENGLAND GOV RICHARDSON TOLD FOREIGN BANKERS ASSN MAJOR WORLD PROBLEMS ARE INFLATION AND FINANCING BALANCE OF PAYMENTS DEFICITS. DEFICIT COUNTRIES HAVE USED IMF FACILITIES ONLY TO LIMITED EXTENT. SITUATION SHOULD CHANGE WITH SUPPORT OF INTL BANKING COMMUNITY. ECONOMIC PROGRAM WORKED OUT

WITH IMF COULD LEAD TO INCREASED BANK OR COMMERCIAL FINANCING. MONETARY AUTHORITIES CAN HELP SET UP SUPPLEMENTARY FINANCING FACILITY. BILATERAL ARRANGEMENTS ARE ALWAYS POSSIBLE. PRIVATE INVESTMENTS REMAIN IMPORTANT. SURPLUS COUNTRIES SHOULD FAVOR DEFICIT COUNTRIES WHO IN TURN SHOULD MAINTAIN ATTRACTIVE INVESTMENT CLIMATE. PRIVATE BANKS SHOULD BE ABLE RELY ON ACCURATE INFO FROM GOVTS AND CENTRAL BANKS FREE FROM PRESSURE TO INCREASE FINANCING.

8. SNB VIEWS:

A) SNB PRES LEUTWILER TOLD LIECHTENSTEIN ROTARY CLUB DOLLAR STILL UNDER-VALUED BUT HE BELIEVES DOLLAR RECOVERY WILL CONTINUE AND FOREX MARKETS WILL BE CALMER IN MONTHS AHEAD. SAID EXCHANGE RATE FLUCTUATIONS REFLECTING INFLATION RATE DIFFERENTIALS ARE ACCEPTABLE AND NOT NECESSARILY DISADVANTAGEOUS FOR SWITZERLAND. CENTRAL BANKS, HOWEVER, SHOULD UNDERTAKE COORDINATED INTERVENTION TO CALM EXAGGERATED MOVEMENTS WHICH STIMULATE SPECULATION. LEUTWILER WAS HOPEFUL MOST INFLUENTIAL COUNTRIES, INCLUDING US, INCREASINGLY REALIZE EXCESSIVE FLUCTUATIONS WITH STEADY DOLLAR DEPRECIATION IS GENERALLY HARMFUL TO ALL CONCERNED. HOPED FOR INCREASING COOPERATION IN COMING MONTHS BUT DISCOUNTED FIXED PARITIES IN LIGHT OF LARGE INFLATION AND PAYMENTS IMBALANCES. DENIED RUMORS THAT SNB PLANS STRENGTHEN MEASURES AGAINST CAPITAL INFLOWS. SAID PRESENT MEASURES COULD BE LIFTED ONLY

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PAGE 04 BERN 03014 02 OF 03 221138Z

WHEN SF STABILIZED AT ECONOMICALLY VIABLE LEVEL WITHOUT RISK OF UPWARD EXCHANGE RATE REACTION; HOPED THAT WOULD BE BEFORE END 1978.

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PAGE 01 BERN 03014 03 OF 03 221132Z

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AMEMBASSY PARIS

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UNCLAS SECTION 3 OF 3 BERN 3014

B) LEUTWILER SAID SWISS MONEY SUPPLY (M1) GROWTH RATE HAS AVERAGED 16.7 PCT IN MAR, APR AND MAY AND WOULD REMAIN HIGH THROUGH AUG ON YEARLY BASIS. SNB'S TARGETED AVERAGE M1 GROWTH RATE OF 5 PCT IN 1978 IS UNATTAINABLE. CURRENT FOREX MARKET CONDITIONS PRECLUDE DRASTIC MONEY SUPPLY REDUCTION. THERE IS NO IMMEDIATE INFLATIONARY DANGER BECAUSE SF APPRECIATION DAMPENS IMPORT PRICES. HOWEVER, EXCESS LIQUIDITY COULD ENDANGER PRICE STABILITY IF ECONOMIC ACTIVITY BECAME STRONGER, THOUGH THIS IS NOT INDICATED, OR PRICE STABILIZATION POLICY MIGHT LOSE CREDIBILITY AND STIMULATE INFLATION UNRELATED TO ECONOMIC FACTORS.

C) LEUTWILER SAID CURRENT PARALLEL CURRENCY LEGISLATION IN LIECHTENSTEIN AND SWITZERLAND IS INADEQUATE. NEED FORMAL CURRENCY AGREEMENT SO SWISS CURRENCY RULES AND POLICY ARE APPLIED ALL OVER SWISS CURRENCY AREA

UNCLASSIFIED

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PAGE 02 BERN 03014 03 OF 03 221132Z

WHICH INCLUDES LIECHTENSTEIN. TREATY NEGOTIATIONS BEGAN LATE 1977; HOPED FOR EARLY CONCLUSION. SNB SHOULD BE ABLE RECEIVE SAME INFO FROM LIECHTENSTEIN COMPANIES RE COMPLIANCE WITH CURRENCY REGULATIONS AS FROM SWISS FIRMS. LIECHTENSTEIN BANKS SHOULD HAVE SAME RIGHTS AND OBLIGATIONS AS SWISS BANKS.

9. INDUSTRY: UNION CARBIDE ANNOUNCED SALE OF ITS BAKELITE XYLONITE LTD BRANCH IN UK AND UNION CARBIDE BELGIUM TO BP CHEMICALS FOR \$400 MILLION. BP WILL ALSO TAKE UNION CARBIDE CHEMICAL DIV IN UK AND UNION CARBIDE LABORATORIES, GENEVA, SWITZERLAND. SALE RESULTED FROM UC DECISION NOT MAKE ENORMOUS INVESTMENTS TO INTRODUCE ETHYLENE PRODUCTION IN EUROPE IN FACE TO TOUGH COMPETITION. SOME 4,000 EMPLOYEES WILL BE AFFECTED BY SALE. IN SWITZERLAND, SALE INVOLVES SOME 100 EMPLOYEES OF UC LAB S BUT 530 EMPLOYEES OF UC HEADQUARTERS IN GENEVA ARE UNAFFECTED.

HOWEVER, UC HAS ABANDONED PREVIOUS PLAN TO BUILD NEW GENEVA EUROPEAN HQS BUILDING FOR 800 EMPLOYEES.

10. ECONOMIC OUTLOOK: SWISS FED ECONOMIC DEPT REPORT EXPECTS CONTINUED UPWARD PRESSURE ON SF IN COMING MONTHS. OVERALL ECONOMIC OUTLOOK IS MORE FAVORABLE. SLUGGISH ECONOMIC ACTIVITY IN EARLY 1978 WAS ATTRIBUTED TO ADJUSTMENTS TO CHANGED ECONOMIC CONDITIONS WHICH SHOULD GRADUALLY SHIFT TO SWITZERLAND'S ADVANTAGE DURING SUMMER. DISCOUNTED PROSPECTS EARLY RENEWED RECESSION. EXPECTED SWISS 1978 ECONOMIC GROWTH TO REMAIN BELOW OECD AVERAGE.

11. FOREIGN TRADE: IMPORTS IN MAY ROSE 3.3 PCT COMPARED TO MAY 1977 TO SF 3,624 MILLION. EXPORTS INCREASED 5.7 PCT TO SF 3,523 MILLION. IN REAL TERMS IMPORTS ROSE 10.1 PCT; EXPORTS INCREASED 8.8 PCT. SWISS TRADE DEFICIT FOR FIRST 5 MONTHS 1978 IS SF UNCLASSIFIED

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PAGE 03 BERN 03014 03 OF 03 221132Z

713.9 MILLION.

12. LABOR: EMPLOYMENT: UNEMPLOYMENT END-MAY WAS 9,370, DOWN 7.4 PCT FROM END APR AND 23.7 PCT BELOW END MAY 1977. UNEMPLOYMENT RATE 0.3 PCT OF LABOR FORCE. NUMBER OF UNFILLED POSITIONS WAS 8,180 , DOWN 1.6 PCT FROM END APR BUT UP 28.3 PCT FROM END MAY 1977. WARNER

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